STATE OF ARIZONA
DEPARTMENT OF INSURANCE
MEMORANDUM

TO: Interested Legislators and Other Parties

FROM: Charles R. Cohen
Director of Insurance
Receiver of Premier HealthCare of Arizona

DATE: January 13, 2000

RE: Premier Healthcare; Receivership Status

As you are likely aware, on November 16, 1999 I obtained an order from the superior court declaring Premier HealthCare of Arizona ("Premier") insolvent, and appointing me as Receiver. Premier's insolvency has primarily impacted communities in and around Flagstaff, Kingman, Prescott, Yuma, Tucson and Maricopa County. This memo is to update you as to the status of the receivership, and to advise you of the key issues that affect two major groups: (1) people who are and were enrolled in Premier health plans, and, (2) health care providers who provided and/or continue to provide care to Premier's enrollees. Hopefully, the information in this memo will be helpful to you if constituents falling within these groups contact you with questions.

Premier was originally licensed in 1995. It was owned by nine regional physican/hospital organizations ("PHOs"). These PHOs also contracted with Premier to provide health care to its enrollees. Premier did business with the U.S. Health Care Financing Administration ("HCFA"), providing an HMO product, known as a "Medicare + Choice" plan, to persons entitled to Medicare benefits. HCFA is a federal agency that administers the Medicare program, and oversees the contract performance of Medicare + Choice HMOs. Premier also engaged in "commercial", or non-Medicare, business issuing health plans to various groups in the private market.

In March 1999, Premier's stock was sold to Maturewell, Inc. Maturewell invested substantial amounts of capital in Premier. However, MatureWell was ultimately unable to control Premier's operating losses and provider network deterioration. In August 1999, Premier agreed to suspend new marketing and enrollment under its Medicare + Choice contract with HCFA. In early November 1999, the Department of Insurance determined that Premier was unable to obtain necessary additional capital and to properly address operational problems, and instructed Premier not to issue any new commercial business. On November 16, 1999, I obtained the court order appointing me as Receiver.

At the time the receivership commenced, Premier had approximately 75,000 enrollees, of which 20,778 were Medicare beneficiaries. As I stated, most were in communities in and around Flagstaff, Kingman, Prescott, Yuma, Tucson and Maricopa County. HCFA terminated its Medicare + Choice contract with Premier on December 1, 1999. As of January 12, 2000, 33,197 of the commercial enrollees have disenrolled, leaving approximately 22,867. We hope to transfer all remaining enrollees entitled to continuing coverage by Premier to other carriers by March 1, 2000.

To enable you to understand and handle inquiries you may receive from your constituents, the following is a summary of the major areas of receivership activity, and how they impact enrollees and providers.

1. Payment of Post-Receivership Claims

Under state law, post-receivership claims (i.e., provider claims for payment arising out of services rendered 11/16/99 or later) must be handled differently than pre-receivership claims (i.e., provider claims for payment arising out of services rendered prior to 11/16/99). As discussed in more detail below, payment of pre-receivership claims is suspended for the time being. However, post-receivership claims are being paid.

In accordance with state law, Premier has a Plan for Risk of Insolvency that enables regular payment of post-receivership claims. The Plan for Risk of Insolvency provides that Premier enrollees may receive covered services from Premier for 60 days following the date of insolvency (through January 15, 2000) or until their enrollment contracts expire, whichever is longer. Premier enrollees that were hospitalized on the date of insolvency are covered until they are discharged. To continue to receive benefits, enrollees are required to continue to pay premiums to Premier.

Money to pay health care providers for post receivership services comes from a reinsurer and from premium payments from enrollees. Based upon present projections, we believe Premier will have enough money to pay all valid post-receivership claims in full. In order to assure that Premier is able to provide covered services during the receivership, the court order prohibits contract providers from terminating their contracts with Premier as long as Premier remains obligated to provide service to enrollees. Again, the Plan for Risk of Insolvency enables payment to providers for post-receivership services.

2. Transition of Premier's Enrollment

We are making a great effort to facilitate the transition of Premier enrollees to other coverage. This is occurring in several different ways.

- **Medicare:** HCFA controls the administration of Premier's Medicare business. As described above, HCFA terminated its Medicare + Choice contract with Premier on December 1, 1999. If other Medicare + Choice plans were available in their counties, Medicare beneficiaries could elect to enroll with one of these plans effective December

1, 1999. If not, the beneficiaries automatically returned to "traditional" fee-for-service Medicare. Beneficiaries returning to fee-for-service had certain rights to "guaranteed issue" of Medicare supplement insurance, which is coverage to supplement Medicare by providing benefits for Medicare deductibles and co-insurance amounts.

- **Commercial:** Premier's commercial business is being transitioned in several different ways.

    - Mandatory open enrollment: Groups with carriers in addition to Premier were provided by state law with 30 days from the insolvency (until December 15, 1999) to enroll with one of their other carriers. The other carriers were required by law to offer Premier enrollees the same coverage and rates offered during the last full open enrollment and could not impose waiting periods, pre-existing conditions, exclusions, limitations or restrictions. We sent notices to group contract holders and to all group insurers reminding them of these legal requirements.

    - Guaranteed Issue: For small employers with at least two but not more than fifty employees, state and federal laws require insurers doing group business in Arizona to provide coverage without imposition of new waiting periods. We have referred Premier enrollees to the list of group insurers (referred to as "accountable health plans") compiled and maintained by the Department. Although coverage is available to these groups through these accountable health plans, it may be significantly more expensive than their Premier coverage.

    - Private Placements: We have worked with group representatives and private brokers to facilitate private placements of groups with acceptable replacement coverage.

    - Remaining Enrollees: As described above, Premier has approximately 23,000 remaining enrollees. Coverage for some groups within this population terminates after January 15, 2000 (i.e., 60 days after the insolvency). We are attempting to put together a transaction to transition all remaining groups to one or a few new carriers effective March 1, 2000.

It is important for enrollees whose coverage with Premier terminates to be aware that federal law provides certain of them with the right to obtain replacement coverage without waiting periods or new pre-existing condition limitations. However, that protection lasts for only 63 days after their Premier coverage expires. Also, the rates for the replacement coverage may be significantly higher than their Premier rates.

3. Determination and Payment of Pre-Receivership Claims

We are attempting to identify and collect Premier's assets and to quantify amounts owed to providers for valid pre-receivership claims. Premier was behind in billing and collecting premiums and in processing and paying claims. We have made progress in reconciling Premier's records, and intend to establish a procedure for determining and paying pre-receivership claims. We will advise providers very shortly, hopefully within two to four weeks, as to the process by which their claims can be determined and, depending upon available assets, paid in full or in part.

4. Collection from Enrollees

We have received complaints that some providers are attempting to collect from enrollees amounts the providers believe are due and unpaid from Premier. Arizona law, A.R.S. § 20-1072, specifically prohibits providers who rendered service to Premier enrollees as contract providers from attempting to collect any amount from enrollees other than amounts for ordinary deductibles or co-payments, or amounts for uncovered services. Some contract providers may be under the impression that they are entitled to collect from enrollees after the first 60 days of the receivership. That is incorrect. Contract providers are never permitted to collect from enrollees. Enrollees should **not** pay contract providers amounts due from Premier. Enrollees who do so are not guaranteed to be fully reimbursed by Premier. Enrollees should report improper collection efforts to Premier. We will be meeting with the Attorney General to discuss improper collection activity. If we determine collection efforts were unlawful, we will cause appropriate legal action against the provider to be taken.

Generally, providers who rendered service to Premier enrollees as non-contract, or "out-of-network", providers are not prohibited from collecting unpaid amounts from enrollees. However, the receivership order prohibits them from collecting from Premier enrollees as long as the enrollees remain covered by Premier. I intend to request the court to extend that prohibition to include former enrollees of Premier for as long as it takes us to conclude the receivership claim payment process.

As stated above, we intend to advise providers very shortly as to the process we will institute to begin to adjudicate and, to the extent possible, pay their valid pre-receivership claims. If I am unable to extend protection from collection to former enrollees, some non-contract providers may seek to collect amounts due for pre-receivership services from enrollees. I am not able to do anything to prevent that, except to fully inform the provider of our efforts to adjudicate and pay pre-receivership claims and to encourage the provider to defer collection from the enrollee until the receivership claim process is concluded.

Receivership personnel and consumer services specialists at the Department of Insurance are available to provide assistance and respond to inquiries. Please do not hesitate to direct your constituents to them.

Here are some phone numbers that may be helpful:

- Premier HealthCare 602-200-2457
  1-888-590-2457

- Arizona Department of Insurance 602-912-8444

- State Health Insurance Assistance Program (Medicare) 1-800-432-4040

Additionally, the Department of Insurance website, www.state.az.us/id, includes a special "Premier" update page.

Attached for your reference are copies of certain correspondence, notices and bulletins I and the receivership staff have issued, along with a copy of the Department's "Premier" page on its website and a copy of the materials prepared by HCFA for Medicare beneficiaries.

Please let me know if you would like additional information regarding any aspect of the Premier receivership. Please do not hesitate to contact me if I may be of assistance.